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The Pell Grant Program

Postsecondary National Policy Institute

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Pell Grant Program Overview

- The Pell grant program is the largest federal postsecondary student aid grant program.
 - Recipients must be undergraduate students who have never received a bachelor's degree (with some exceptions).
 - Eligibility and award amounts are based on a student's income and assets (or, for students who are dependents, their parents' income and assets).
- Program Projections for Award Year (AY) 2017–2018 (based on CBO's June 2017 baseline):
 - 7.5 million Pell grant recipients
 - Total maximum award of \$5,920
 - Average award of about \$3,800
 - Total federal spending of \$28.5 billion

Components of Funding for Pell Grants

■ Discretionary Funding

- Budget authority is provided by the Congress to support the Pell program.
- The maximum award (currently \$4,860) is set in the annual appropriation act.

■ Mandatory for Discretionary Pell Funding

- Mandatory budget authority is available to supplement funding for the discretionary portion of the Pell grant program, as provided in the Higher Education Act (HEA).

■ Mandatory Add-On

- The mandatory add-on covers the difference between the total maximum award and the discretionary maximum award set in an appropriation act.
- AY 2016–17: total maximum award = \$5,815; mandatory add-on = \$955
- AY 2017–18: total maximum award = \$5,920; mandatory add-on = \$1,060

Discretionary Funding: CBO's Baseline Versus Program Costs

■ **Discretionary Baseline**

- Constructed like all other discretionary programs
- Projected as current budget authority plus an increase for inflation
- Does not reflect a projection of future program costs

■ **Discretionary Program Costs**

- Estimated on the basis of projected changes in the number of recipients and their award levels
- Incorporated an assumption of a \$4,860 discretionary maximum award in all years

How Pell Grants Are Like Entitlements

■ Pell Scoring Rule

- Even if appropriations do not provide enough budget authority to fund Pell grants in the upcoming fiscal year, CBO's estimates include the full costs of the program.
- In its cost estimates, CBO uses the higher amount of budget authority (adjusted for shortfalls or surpluses) or program costs.

■ Funding Shortfalls and Surpluses

- The difference between discretionary program costs and available budget authority (through both discretionary appropriations and the mandatory for discretionary funding provided in the HEA) creates either a discretionary shortfall or a surplus.
- The Pell program has had a discretionary surplus for the past six years, currently estimated at \$8.5 billion.

**CBO's June 2017
Supplemental Pell Grant Data**
www.cbo.gov/publication/51304

Supplemental Table: Pell Grant Program Surplus

Pell Grant Program, Discretionary: Cumulative Shortfall/Surplus - CBO's June 2017 Baseline

(Budget authority, program costs, and outlays in millions of dollars, by fiscal year)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Regular Discretionary Appropriation^a	13,045	13,661	14,215	17,288	17,495	22,956	22,824	22,778	22,778	22,475	22,475	21,165
Additional Funding^b												
American Recovery and Reinvestment Act of 2009 (ARRA)	0	0	0	15,640	0	0	0	0	0	0	0	0
Healthcare and Education Reconciliation Act of 2010	0	0	0	0	0	13,500	0	0	0	0	0	0
DOD and Full-Year Cont. Appropriations. Act of 2011	0	0	0	0	0	0	3,183	0	0	0	0	1,060
Budget Control Act of 2011	0	0	0	0	0	0	10,000	7,000	0	0	0	0
Consolidated Appropriations Act, 2012	0	0	0	0	0	0	612	587	588	0	0	514
Consolidated Appropriations Act, 2017	0	0	0	0	0	0	0	0	0	0	0	-254
Total Budget Authority	13,045	13,661	14,215	32,928	17,495	36,456	36,619	30,365	23,366	22,475	22,475	22,485
Previous year Shortfall/Surplus		220	-818	-2,657	3,427	-9,569	-1,909	7,198	11,082	9,128	8,242	8,698
Total Available Budget Authority	13,045	13,881	13,397	30,271	20,922	26,887	34,710	37,563	34,448	31,603	30,717	31,183
Estimated Program Costs	<u>12,825</u>	<u>14,699</u>	<u>16,054</u>	<u>26,844</u>	<u>30,491</u>	<u>28,796</u>	<u>27,512</u>	<u>26,481</u>	<u>25,320</u>	<u>23,361</u>	<u>22,019</u>	<u>22,632</u>
Cumulative Surplus (+)/Shortfall (-) ^c	220	-818	-2,657	3,427	-9,569	-1,909	7,198	11,082	9,128	8,242	8,698	8,551

Estimated Surplus going into Fiscal Year 2018

8,551

a. Regular Discretionary Appropriation includes any rescissions. In the 2017 Consolidated Appropriations Act, Congress appropriated \$22,475 million, and rescinded \$1,310 million of unobligated discretionary Pell funding.

b. Most of the additional budget authority provided to support the discretionary program is classified as mandatory. Beginning in 2011, the total amount of additional funding can be found in section 401(b)(7)(A)(iv) of the Higher Education Act of 1965. That budget authority is used to augment the funding provided in annual appropriations for the discretionary Pell grant program.

c. The cumulative shortfall or surplus in budget authority is calculated under the Pell scoring rule, as specified in section 406 of the 2006 Budget Resolution (H. Con. Res. 95).

Supplemental Table: Discretionary Program Costs

Pell Grant Program, Discretionary: Program Costs and Baseline - CBO's June 2017 Baseline

(Budget authority, program costs, and outlays in millions of dollars, by fiscal year)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
BUDGET AUTHORITY NEEDED TO SUPPORT A MAXIMUM AWARD OF \$4,860 AND AVAILABLE FUNDING										
Estimated Program Cost for \$4,860 Maximum Award	23,249	23,632	24,055	24,470	24,843	25,228	25,641	26,071	26,537	27,054
Cumulative Surplus for 2006-2017 ^a	8,551	0	0	0	0	0	0	0	0	0
Mandatory Budget Authority Available ^b	<u>1,382</u>	<u>1,409</u>	<u>1,430</u>	<u>1,145</u>	<u>1,145</u>	<u>1,145</u>	<u>1,145</u>	<u>1,145</u>	<u>1,145</u>	<u>1,145</u>
Total Additional Budget Authority Needed ^c	13,316	22,223	22,625	23,325	23,698	24,083	24,496	24,926	25,392	25,909

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
COMPONENTS OF PELL GRANT PROGRAM, DISCRETIONARY BASELINE											
<i>Regular Appropriation^d</i>											
Maximum award ^d	\$4,860	---	---	---	---	---	---	---	---	---	---
Budget Authority	22,475	22,902	23,329	23,756	24,228	24,723	25,217	25,711	26,251	26,790	27,326
Outlays	21,650	24,411	30,101	23,539	23,879	24,357	24,851	25,346	25,852	26,391	26,929
<i>Rescission^e</i>											
Budget Authority	-1,310	-1,335	-1,360	-1,385	-1,412	-1,441	-1,470	-1,499	-1,530	-1,562	-1,593
Outlays	-354	-1,303	-1,342	-1,367	-1,392	-1,420	-1,449	-1,478	-1,507	-1,538	-1,570
<i>Mandatory funding^b</i>											
Budget Authority	1,320	1,382	1,409	1,430	1,145	1,145	1,145	1,145	1,145	1,145	1,145
Outlays	548	1,324	1,389	1,414	1,353	1,148	1,145	1,145	1,145	1,145	1,145
<i>Total funding available for Discretionary Pell Program</i>											
Budget Authority	22,485	22,949	23,378	23,801	23,961	24,427	24,892	25,357	25,866	26,373	26,878
Outlays	21,844	24,432	30,148	23,586	23,840	24,085	24,547	25,013	25,490	25,998	26,504

a. The cumulative shortfall or surplus in budget authority is calculated under the Pell scoring rule, as specified in section 406 of the 2006 Budget Resolution (H. Con. Res. 95). See page 1 for calculation.

b. Mandatory budget authority available to supplement funding for the discretionary portion of the Pell Grant program, provided in section 401(b)(7)(A)(iv) of the Higher Education Act of 1965.

c. Estimated budget authority needed to support a maximum award level of \$4,860 under the Pell scoring rule, as specified in section 406 of the 2006 Budget Resolution (H. Con. Res. 95)

d. The Pell Grant Program is primarily a discretionary program, with an annual appropriation supporting a maximum award level set in the annual appropriations act. CBO's June 2017 baseline does not represent a projection of expected costs for the Pell grant program. As with all other discretionary programs, the budget authority is calculated by inflating the budget authority appropriated for fiscal year 2017. Outlays for future years are based on those levels of budget authority. In the most recently enacted appropriations act, the maximum award was set at \$4,860.

e. In the 2017 Consolidated Appropriations Act, there was a rescission of \$1.3 billion of unobligated discretionary Pell funding. Under the rules for constructing the baseline, that rescission is inflated in the same manner as the regular appropriation.

Supplemental Table: Total Program Costs

Pell Grant Program, Discretionary and Mandatory Program Costs - CBO June 2017 Baseline

(Budget authority, program costs, and outlays in millions of dollars, by fiscal year)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2017-2022	2017-2027
Discretionary Pell Grant Program													
Assumed Discretionary Maximum Award Level ^a	\$4,860	\$4,860	\$4,860	\$4,860	\$4,860	\$4,860	\$4,860	\$4,860	\$4,860	\$4,860	\$4,860		
Total Spending for Discretionary Pell Grants													
Program Costs	22,632	23,249	23,632	24,055	24,470	24,843	25,228	25,641	26,071	26,537	27,054	142,882	273,413
Outlays	22,198	22,793	23,346	23,743	24,163	24,567	24,943	25,336	25,753	26,193	26,672	140,809	269,706
Mandatory Pell Grant Program													
Mandatory Add-on Award ^b	\$1,060	\$1,060	\$1,060	\$1,060	\$1,060	\$1,060	\$1,060	\$1,060	\$1,060	\$1,060	\$1,060		
Total Spending for Mandatory Pell Grant Addon													
Program Costs	5,857	6,086	6,204	6,384	6,484	6,577	6,674	6,778	6,888	7,025	7,176	37,592	72,133
Outlays	5,332	5,911	6,116	6,251	6,409	6,508	6,602	6,701	6,807	6,924	7,065	36,527	70,625
Total Pell Grant Program													
Total Maximum Award	\$5,920	\$5,920	\$5,920	\$5,920	\$5,920	\$5,920	\$5,920	\$5,920	\$5,920	\$5,920	\$5,920		
Total Spending for Pell Grants													
Program Costs	28,489	29,335	29,836	30,439	30,954	31,420	31,902	32,420	32,960	33,562	34,230	180,473	345,546
Outlays	27,530	28,704	29,462	29,994	30,572	31,075	31,545	32,037	32,560	33,117	33,736	177,337	340,332
Total Projected Recipients (in thousands)	7,470	7,540	7,670	7,790	7,930	8,070	8,200	8,330	8,460	8,590	8,770		

a. The maximum award level for the discretionary portion of the Pell Grant Program is set each year in the annual appropriations act. In the most recently enacted appropriations act, the award level was set at \$4,860.

b. The amount of the mandatory add-on for 2017 is based on the total published by the Department of Education in a Dear Colleague Letter on October 18, 2016. Under current law, the amount of the mandatory add-on for each year over the 2018 - 2027 period is the same as the amount in award year 2017-2018.

Appendix I: Mandatory for Discretionary

Sec. 401

HIGHER EDUCATION ACT OF 1965

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(7) ADDITIONAL FUNDS.—

(A) IN GENERAL.—There are authorized to be appropriated, and there are appropriated (in addition to any other amounts appropriated to carry out this section and out of any money in the Treasury not otherwise appropriated) the following amounts—

- (i) \$2,030,000,000 for fiscal year 2008;
- (ii) \$2,090,000,000 for fiscal year 2009;
- (iii) to carry out subparagraph (B) of this paragraph, such sums as may be necessary for fiscal year 2010 and each subsequent fiscal year to provide the amount of increase of the maximum Federal Pell Grant required by clauses (ii) and (iii) of subparagraph (B); and

(iv) to carry out this section—

- (I) \$13,500,000,000 for fiscal year 2011;
- (II) \$13,795,000,000 for fiscal year 2012;
- (III) \$7,587,000,000 for fiscal year 2013;
- (IV) \$588,000,000 for fiscal year 2014;
- (V) \$0 for fiscal year 2015;
- (VI) \$0 for fiscal year 2016;
- \$1,320,000,000 ← ~~(VII) \$1,574,000,000 for fiscal year 2017;~~
- (VIII) \$1,382,000,000 for fiscal year 2018;
- (IX) \$1,409,000,000 for fiscal year 2019;
- (X) \$1,430,000,000 for fiscal year 2020; and
- (XI) \$1,145,000,000 for fiscal year 2021 and each succeeding fiscal year.

Appendix II: Mandatory Add-On

(B) INCREASE IN FEDERAL PELL GRANTS.—The amounts made available pursuant to clauses (i) through (iii) of subparagraph (A) of this paragraph shall be used to increase the amount of the maximum Federal Pell Grant for which a student shall be eligible during an award year, as specified in the last enacted appropriation Act applicable to that award year, by—

(i) \$490 for each of the award years 2008–2009 and 2009–2010;

(ii) \$690 for each of the award years 2010–2011, 2011–2012, and 2012–2013; and

(iii) the amount determined under subparagraph (C) for each succeeding award year.

(C) ADJUSTMENT AMOUNTS.—

(i) AWARD YEAR 2013–2014.—For award year 2013–2014, the amount determined under this subparagraph for purposes of subparagraph (B)(iii) shall be equal to—

(I) \$5,550 or the total maximum Federal Pell Grant for the preceding award year (as determined under clause (iv)(II)), whichever is greater, increased by a percentage equal to the annual adjustment percentage for award year 2013–2014, reduced by

(II) \$4,860 or the maximum Federal Pell Grant for which a student was eligible for the preceding award year, as specified in the last enacted

appropriation Act applicable to that year, whichever is greater; and

(III) rounded to the nearest \$5.

(ii) AWARD YEARS 2014–2015 THROUGH 2017–2018.—For each of the award years 2014–2015 through 2017–2018, the amount determined under this subparagraph for purposes of subparagraph (B)(iii) shall be equal to—

(I) the total maximum Federal Pell Grant for the preceding award year (as determined under clause (iv)(II)), increased by a percentage equal to the annual adjustment percentage for the award year for which the amount under this subparagraph is being determined, reduced by

(II) \$4,860 or the maximum Federal Pell Grant for which a student was eligible for the preceding award year, as specified in the last enacted appropriation Act applicable to that year, whichever is greater; and

(III) rounded to the nearest \$5.

(iii) SUBSEQUENT AWARD YEARS.—For award year 2018–2019 and each subsequent award year, the amount determined under this subparagraph for purposes of subparagraph (B)(iii) shall be equal to the amount determined under clause (ii) for award year 2017–2018.

(iv) DEFINITIONS.—For purposes of this subparagraph—

(I) the term “annual adjustment percentage” as applied to an award year, is equal to the estimated percentage change in the Consumer Price Index (as determined by the Secretary, using the definition in section 478(f)) for the most recent calendar year ending prior to the beginning of that award year; and

(II) the term “total maximum Federal Pell Grant” as applied to a preceding award year, is equal to the sum of—

(aa) the maximum Federal Pell Grant for which a student is eligible during an award year, as specified in the last enacted appropriation Act applicable to that preceding award year; and

(bb) the amount of the increase in the maximum Federal Pell Grant required by this paragraph for that preceding award year.

Appendix III: Pell Scoring Rule

The congressional budget resolution for fiscal year 2006 included a rule under which appropriations bills for the Pell Grant program are scored by the Congressional Budget Office for the estimated cost of the program for that year [adjusted for the cumulative shortfall/surplus], regardless of the amount actually appropriated. In years where the appropriation exceeds the program cost as estimated at the beginning of the subsequent fiscal year, any surplus is available to reduce the appropriation needed to support that subsequent year's program costs. Conversely, in years where the appropriation is lower than the updated estimated program cost, the difference is automatically scored against the subsequent year's appropriation.

-Department of Education